

Another Chapter in the Dumping Saga

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Article:

As Sonny and Cher would say, the beat goes on in the war against Chinese imports of wood bedroom furniture.

The big anti-dumping investigation ended in late 2004, when the U.S. Department of Commerce announced punitive duties. But Commerce recently announced new duties on some manufacturers and will continue to review its findings periodically. And the potential for a new legal challenge against Chinese furniture imports looms on the horizon.

In 2003, a group of domestic manufacturers formed the American Furniture Manufacturers Committee for Legal Trade. The group petitioned the U.S. government regarding the import of low-priced wood bedroom furniture from China, claiming that it was being “dumped” on the U.S. market. Dumping is deemed to occur when the imported product is sold here for less than its “fair value,” which in practice is taken to mean its cost of production.

Why would anyone be willing to sell below cost? True believers of the dumping doctrine say that foreign manufacturers do it in hopes of driving domestic manufacturers out of business and raising prices when they're gone. Of course, if this had ever worked, prices of numerous products would have risen over the years as the American economy opened itself up to international trade. Precisely the opposite has happened, and imports are generally seen as helping hold down inflation in this country. Moreover, there can be perfectly good capitalist reasons to charge different prices in different markets, including the practice of “pricing to market.”

No one's saying that prices of Chinese-made bedroom suites aren't quite low. And no one, including the anti-dumping petitioners, fails to acknowledge China's low labor costs. But given those two facts, isn't China's cheap labor the most likely explanation of the cheapness of Chinese furniture? It's a stretch to blame it on a convoluted plot by Chinese manufacturers to sell their products below cost.

Appealing to an anti-dumping process may be economically questionable, but it's simple human nature.

Suppose you ran a dry-cleaning shop and were being undercut by a low-price competitor. Suppose also that you just discovered that your town had an ordinance prohibiting price competition among dry cleaners. You could try to beat your competitor on the basis of product or price, but wouldn't you be tempted to use that ordinance to force your competitor to raise his prices? It might be bad economics, but it'd be legal in your town. Well, the anti-dumping process is also bad economics, and it too is legal.

During the anti-dumping investigation, the Department of Commerce and the U.S. International Trade Commission concluded first that domestic manufacturers of wood bedroom furniture had been injured by Chinese imports, and then that the injury had been caused by dumping. No one was surprised by this. The U.S. government tends to find in favor of anti-dumping petitioners. The presumption is the opposite of the American judicial system: an importer is guilty of dumping until it can prove its innocence.

The surprise came when Commerce announced the antidumping duties, or ADDs, which are the punitive tariffs that reflect the degree to which dumping lowered prices. The average ADD was only 6.65 percent. Domestic manufacturers had requested ADDs ranging from 158 to 440 percent. John Bassett, chairman of Vaughn-Bassett and a leader of the petitioner group, noted recently that the ADDs were “disappointing.” Another industry figure said that duties that low would be treated merely as an added cost of doing business.

The implication of the low ADDs was that even by the stacked-deck standards of the U.S. government, dumping was a relatively minor factor. In other words, China’s low wages really were the bigger explanation of the low prices.

In the first year of the duties, Chinese imports of wood bedroom furniture fell by about 15 percent. But the difference was made up by an increase in imports from Vietnam and other low-wage countries. We squeezed the balloon in one place and it bulged out somewhere else.

The process has done little to help domestic furniture makers, except that they’ve been able to claim shares of the ADD revenues. By law, the government had to give these revenues to domestic manufacturers, even those that opposed the anti-dumping petition! Unfortunately for them all, this law was repealed after the World Trade Organization ruled that it violated international-trade rules.

This summer Commerce announced the results of an administrative review that allowed certain Chinese manufacturers to apply for lower ADDs. The review covered roughly 18 months of imports, from mid-2004 through the end of 2005. Most manufacturers that were reviewed were able to lower their duties. For example, Fine Furniture Shanghai lowered its rate to 1.97 percent. And a group of manufacturers that had previously received the highest rate of 198 percent were able to reduce that to 35 percent. But a few fared less well. The Dare Group saw its duty rise to nearly 49 percent. Still, the net effect of the review was to lower the average ADD even further.

To be sure, the highest rate was raised to 216 percent, but that rate applies mostly to companies that didn’t cooperate with the U.S. government. When the investigation began, those companies accounted for only 20 percent of all imports of wood bedroom furniture to the U.S., and now that percentage is close to zero. Those companies have either switched to other product lines or are now serving the growing Chinese domestic market.

The next review is underway, covering imports by nearly 100 companies during 2006. Commerce has announced that 100 other Chinese manufacturers will be exempted from the review and that their ADDs will remain at 6.65 percent. (Earlier, the ADD of major importer Lacquer Craft was eliminated entirely.)

But there may soon be a new legal challenge to Chinese imports. In February, anti-dumping leader John Bassett testified before Congress to advocate for the imposition of countervailing duties, or CVDs, against Chinese wood bedroom furniture. The theory of CVDs is slightly different from that of ADDs. CVDs are deemed to be warranted when the government of the exporting country subsidizes and otherwise provides tangible financial support to producers of the exported product.

As an emerging economy focused on export-led growth, China does indeed provide many forms of assistance to its manufacturers. But if we’re going to be fair, we have to admit that the U.S. is hardly an innocent wallflower at this party.

Governments at the federal, state, and local levels all use tax breaks and incentive grants to encourage manufacturing and exports.

But fairness aside, could CVDs succeed where ADDs failed, and provide relief to domestic furniture manufacturers? Don’t count on it. It’ll likely just start a new round of balloon squeezing.